

CITY COUNCIL MINUTES
March 31, 2014

The Honorable Council of the City of Evansville met on regular session at 5:30 p.m. on Monday, March 31, 2014 in the City Council Chambers, Room 301 Civic Center Complex, Evansville, Indiana, with President John Friend presiding and conducting the following business.

These minutes do not represent a verbatim transcript. Audiotapes of this meeting are on file in the City Clerk's Office.

President Friend: The Honorable Council of the City of Evansville is hereby called to order. Madam Clerk, please call the roll.

ROLL CALL:

Present: McGinn, Mosby, Brinkerhoff-Riley, Robinson, Lindsey, Adams, O'Daniel, Weaver, Friend

President Friend: There being nine (9) members present and zero (0) members absent and nine (9) members representing a quorum, I hereby declare this session of the Common Council officially open.

PLEDGE OF ALLEGIANCE

The Pledge of Allegiance will be by Mr. Danks.

President Friend: Fellow Councilmen and those in the audience, welcome to the March 31 meeting of the Common Council.

TEEN ADVISORY COMMITTEE:

Kelsey Retter, a junior Harrison High School

COUNCIL ATTORNEY

Tonight we have Mr. Danks here joining us, back from Florida. Glad you could make it back sir. Thank you.

SERGEANT AT ARMS

Our Sergeant at Arms is Officer Thiry.

APPROVAL OF MINUTES

I need a motion to approve the minutes of the March 10, 2014 meeting of the Common Council as written.

Councilwoman Robinson moved and Councilwoman Mosby seconded the motion to approve the minutes of the regular meetings of the Common Council held March 10, 2014 as written. Voice vote. So ordered.

REPORTS AND COMMUNICATIONS

IN YOUR MARCH 28TH PACKET:

- * City Council Meeting Agenda for March 31, 2014
- * Committee Meeting Schedule
- * Ordinances F-2014-2 as amended, F-2014-3 as amended, G-2014-3 as amended
- * Ordinance F-2014-4
- * Report from Weights and Measures
- * Evansville Redevelopment Commission Meeting Minutes dated March 4, 2014
- * Vectren Integrated Resource Plan (IRP) Stakeholder Meeting Handout
- * Letter from concerned citizen regarding Residential Housing Inspections

EMAILED MATERIAL:

- * City Council Meeting Minutes dated March 10, 2014

ON YOUR DESK THIS EVENING:

- * Extended Agenda for March 31, 2014
- * City of Evansville 2013 Annual Financial Report

President Friend: Is there a motion to receive, file, and make these reports and communications a part of the minutes of the meeting?

Councilman O'Daniel moved and Councilwoman Mosby seconded the motion to receive, file and make these reports and communications a part of the minutes of the meeting. Voice vote. So ordered.

CONSENT AGENDA

FIRST READING OF ORDINANCES OR RESOLUTIONS

ORDINANCE F-2014-4

FINANCE

O'DANIEL

An Ordinance of the Common Council of the City of Evansville Authorizing Transfers of Appropriations, Additional Appropriations and Repeal and Re-Appropriation of Funds for Various City Funds.

President Friend: Is there a motion to adopt the Consent Agenda as written?

Councilwoman Mosby moved and Councilman Adams seconded the motion to adopt the Consent Agenda as written. Voice vote. So ordered.

CONSENT AGENDA

SECOND READING OF ORDINANCES AND RESOLUTIONS

ORDINANCE G-2014-3 AMENDED PUBLIC WORKS M'GINN

An Ordinance Amending Chapter 8.05 (Health and Sanitation) of the Evansville Municipal Code

ORDINANCE F-2014-2 AMENDED FINANCE O'DANIEL

An Ordinance of the Common Council of the City of Evansville Authorizing Transfers of Appropriations, Additional Appropriations and Repeal and Re-Appropriations of Funds for Various City Funds

ORDINANCE F-2014-3 AMENDED FINANCE O'DANIEL

An Ordinance of the Common Council of the City of Evansville Authorizing Additional Appropriations of Funds within a City Department (DMD)

COMMITTEE REPORTS:

PUBLIC WORKS COMMITTEE:

CHAIRMAN LINDSEY

Chairman Lindsey: Mister President, your Public Works Committee met this evening to hear Ordinance G-2014-3 was amended and it was a do pass, 9 - 0.

FINANCE COMMITTEE:

CHAIRMAN O'DANIEL

Chairman O'Daniel: Mister President, your Finance Committee met this evening to hear Ordinances F-2014-2 as amended and F-2014-3 as amended and both come forward with a do-pass recommendation.

President Friend: Is there a motion to adopt the Committee Reports and move these Ordinances to Third Reading?

Councilwoman Robinson moved and Councilwoman Mosby seconded the motion to adopt the Committee Reports and move these Ordinances to Third Reading. Voice vote. So ordered.

REGULAR AGENDA

THIRD READING OF ORDINANCES AND RESOLUTIONS

ORDINANCE G-2014-3 AMENDED PUBLIC WORKS M'GINN

An Ordinance Amending Chapter 8.05 (Health and Sanitation) of the Evansville Municipal Code

President Friend: Do we need any discussion on this? We already have?

Unidentified Speaker: We already have.

President Friend: We already have, okay. Is there a motion to adopt Ordinance G-2014-3 as amended and call the roll?

Councilman Adams moved and Councilwoman Brinkerhoff-Riley seconded the motion to adopt Ordinance G-2014-3 as amended. Please call the roll.

ROLL CALL

Ayes: McGinn, Mosby, Brinkerhoff-Riley, Robinson, Lindsey, Adams, O'Daniel, Weaver, Friend

President Friend: There being nine (9) Ayes and zero (0) Nays, Ordinance G-2014-3 as amended is hereby declared adopted.

REGULAR AGENDA

THIRD READING OF ORDINANCES AND RESOLUTIONS

ORDINANCE F-2014-2 AMENDED FINANCE O'DANIEL

An Ordinance of the Common Council of the City of Evansville Authorizing Transfers of Appropriations, Additional Appropriations and Repeal and Re-Appropriations of Funds for Various City Funds

President Friend: Is there a motion to adopt Ordinance F-2014-2 as amended and call the roll?

Councilwoman Mosby moved and Councilman O'Daniel seconded the motion to adopt Ordinance F-2014-2 as amended. Please call the roll.

ROLL CALL

Ayes: McGinn, Mosby, Brinkerhoff-Riley, Robinson, Lindsey, Adams, O'Daniel, Weaver, Friend

President Friend: There being nine (9) Ayes and zero (0) Nays, Ordinance F-2014-2 as amended is hereby declared adopted.

REGULAR AGENDA

THIRD READING OF ORDINANCES AND RESOLUTIONS

ORDINANCE F-2014-3 AMENDED FINANCE O'DANIEL

An Ordinance of the Common Council of the City of Evansville Authorizing Additional Appropriations of Funds within a City Department (DMD)

President Friend: Is there a motion to adopt Ordinance F-2014-3 as amended and call the roll?

Councilwoman Mosby moved and Councilman O'Daniel seconded the motion to adopt Ordinance F-2014-3 as amended. Please call the roll.

ROLL CALL

Ayes: McGinn, Mosby, Brinkerhoff-Riley, Robinson, Lindsey, Adams, O'Daniel, Weaver, Friend

President Friend: There being nine (9) Ayes and zero (0) Nays, Ordinance F-2014-3 as amended is hereby declared adopted.

MISCELLANEOUS BUSINESS

There will be no meeting of the Common Council on Monday, April 7, 2014. The next meeting of the Common Council will be Monday, April 14, 2014 at 5:30 p.m. Committee Meetings will begin at 5:25 p.m., Monday, April 14, 2014.

What we have here tonight, we have before us Vectren...is going to come before the Council. I guess they're going to discuss the rate increases that you have before you, and why, I guess. Yes. Thanks Mr. Chapman for joining us this evening. Of course, Brad, you're always welcome.

Vectren CEO Carl Chapman: Thank you very much we'll just take a minute here to see. I think we might have somebody to...I'm not exactly sure how this is loaded. Is somebody...I can't read it from here so...or do you want to just go hard copy or... *(Technical Difficulties)*

Well again, thank you so much for the opportunity to talk to you this evening, appreciate it very much.

What I wanted to do is I know often we talk more about our electric business but of course we also have a gas business here as well across the State of Indiana and also Ohio and there's just a lot more information, a lot more things going on in gas infrastructure so what we wanted to do was to describe to you some of the things that we have going on in our gas business and just give you a little bit better sense of that whole situation: what we've got going on with some specific construction that we need to do.

Obviously you are very familiar with infrastructure from what you've had going on with the water and the sewer. To some extent, this isn't a lot different. It's basically about aging pipe and the need to replace some of that pipe to work. Most of it, in fact the vast majority of it, just driven by federal mandates and so we'll give you just a little bit better sense of that.

But I also want to just...before I do that, I'll give you the agenda. We want to just take a minute to talk a little bit about Vectren's impact in southwest Indiana. We are proud to be in Evansville. I moved here 14 years ago and very proud to be a part of this community. It's been a great move for us and my family. I always say I know it was because my two boys found their two wives in Evansville, Indiana so I know that's a big deal. We moved here as a family and it's

been a great place for us to live so we are proud to be in southwestern Indiana and so I want to talk about our impact on southwestern Indiana.

We'll also talk about just the gas delivery itself, how it fits into our bigger picture of our business. We want to talk about the improvements that we've made over the past seven years. Those improvements are not improvements and I want to repeat that. They're not in our rates and we are not asking for them to be in our rates. What we are talking about are things going forward so we've done a lot of investment: about 100 million dollars, and I'll go through some of that detail here in just a minute, over the past seven years in the gas business which we are not getting a return on in our rates.

I'm going to talk about those safety regulations; what's really driving the vast majority of the expense here. I also want to talk about the gas modernization plan, we made a filing in November of 2013, and then we'll talk about what that means to customer bills and rates.

If we just look at our economic impact in southwestern Indiana, we have in this area 1500 in direct employment, 865 contract miners. You can see 175 million dollar payroll. In Vanderburgh County itself, the employment is over 900, also a 60 million payroll and you can see the tax revenues there. We are also very proud that our employees serve on nearly 100 not-for-profit boards in this area, that we have 21,000 volunteer hours, and one of our charter, or one of our main signature charities, is \$400,000 in employee contributions to United Way and when you put the corporate contribution in there, it's about \$570,000 to just that one charity.

We also want to look at the footprint that we have. You can see down here in the corner, you're very familiar, that's about a nine-county area, we have electric in seven of the counties, and we have gas in nine counties. You can see that we also have...we serve central and all the way up as far as Huntington to the north, so we serve central and a bit of north Indiana, and southeast Indiana, and also in the Dayton, Ohio area. This is the smallest of our three gas utilities. We have nearly a million gas customers and this is the smallest of those. So let's look a little bit though at the infrastructure. Even though it's small, it's a very good size business.

So if we look at that here in southwest Indiana, you can see 3200 miles of pipe that that fits into and the rest of Indiana, the grand total is about 16,000 miles of pipes so a lot of pipe to maintain. And I mentioned that from 2007 to 2013, we've done about 100 million dollars of infrastructure investments and we'll look at some of the detail as to what those were and why we made that investment from 2007 to 13. Our last base rate case though was filed on data from 2006 so any of these investments that I'm mentioning here from 2007 to 2013 are not in our rates not are we asking for those to be in our rates in these filings.

So let's just take a quick look at exactly what some of those expenditures have been in the last few years before we look at what we need to spend going forward. A lot of...just on what we

would call new and improved gas infrastructure, some of that is about adding new customers. Some of the other part of it is about adding new industrial customers, and you can see out of that 50 million, 20 million was provided to serve two large industrial customers in the area. There also are system improvements that have to be made. Obviously, pipes age, systems age, the area grows and so there are improvements that have to be made. I just mentioned a couple of them here: replacement of some steel main, also some odorizer tank. You also know that natural gas has an odor. That odor is something we put in it; it doesn't have an odor by nature. We put an odorant in it so it can be detected and so we had an odorant tank there at the Texas Gas pipeline interconnection. I could go through more detail but I didn't think I would today. If you have questions, I'm happy to do it but I just wanted to give you a sense of where the dollars have been spent over the last few years, and as I said, 50 million dollars on what we would just call improved gas infrastructure.

In addition, on the Community Redevelopment and Expansion, we've also spent 20 million dollars there. Some of that is just for road widening projects. A lot of time, our pipe has to be moved because of road widening projects. Occasionally we'll be reimbursed by INDOT, the Department of Transportation for Indiana, but often we're not. If we are, obviously that comes back and we don't charge that into our costs but if we are not reimbursed, and often we're not as I said, then that would be considered.

Some of these projects, you're going to be very familiar with I know. The Morgan and Green River, Oak Hill, Outer Lincoln Avenue, all areas where we've had to do a lot of work because of expansion or road widening projects. Also, water/sewer expansion or separation, a couple of them listed there. And the airport expansion also requires us to move some pipe as well. So we spent 50 million on those infrastructure improvements, about 20 million on this Community Redevelopment, and then there is another 20 million on miscellaneous kind projects as well. Beyond that, including a portion of that, on bare steel and cast iron and I'll talk about...that's a lot of what we're gonna spend in the future is on bare steel and cast iron so that would be an additional amount that we have spent in the last few years.

But the big change really comes down to federal regulation and there was a law passed in 2011 that you may be familiar with some failures that occurred. One of them was in San Bruno, California, the other one was in Allentown, Pennsylvania and because there was failure of pipe there that caused significant damage, and unfortunately, loss of life, there was a law passed in 2011. There have actually been a number of laws passed from 2002 forward but the 2011 law really suggested that here is some additional work that ought to be done.

Obviously, we think we have a safe system. The difference is that safety evolves and as we know more, or as the industry knows more about safety, knows more about systems, the requirements from the federal government change. So again, an awful lot of these things that we are going to be talking about tonight are really things that are required by the federal government that we really have no choice to do. Obviously, we want a safe system anyway but

several of these are, in fact the vast majority as I mentioned, about 80% of the costs we'll talk about are from federal mandates and mostly related to this law of 2011. I would like to tell you that the law is absolutely done; it's not. Really, what happened with that law was there really were guidelines provided to the federal regulator. Now there are a number of rules that will be passed and so let's just look at what some of those areas are and then there are still rules that are coming through.

Having said that, we feel very comfortable with estimates that we've made. Obviously, the commission, the Indiana Utility Commission, will evaluate those but we feel very comfortable with the estimates we've made but there certainly can be change in all these area but the official rules are not done. The guidelines are so we know what's coming but some of the rules are yet to come so these are our best estimates.

So these are the big areas: Automated or remote controlled shut-off valves. Obviously, what that would be for is to shut off the gas remotely in certain area. Integrity Management, which is just to constantly improve the integrity of the pipeline, is another area. The cast iron pipes, which are obviously the old pipes, again, I know you're very familiar with that from the water side, but cast iron pipes, some of which are very old that need replacement. Excess flow valves are just a safety feature. In case there is a problem, the system can shut down with that flow valve. And then maximum allowable operating pressure; there are a lot of new rules on exactly what has to be monitored and evaluated on the maximum operating pressure that any given pipe can be operated at.

So those areas require a lot of that work and that Integrity Management, one thing you might find of interest and we'll talk more about it in a second, is that it's actually requiring...where often we may have a pipe that's an **L** that has to go around an area or something, and we now will be required, often, it's called in-line inspection, to run what's called a *pig* through that so the pipe has to be piggable. A pig is nothing except an electronic devise that tells you the condition of the pipe. When you force that pig through the pipe you can imagine that when it gets to an **L**, it stops and so what we have to do is take out a lot of those **Ls** or other kinds of things where the pig now can move through the entire area of that pipe. Obviously, when those pipes were installed, in some cases many, many years ago, there was no such thing as pigging so there was no reason why the pipe would have been designed that way. They were designed for convenience. But now we come back, in-line inspection is needed, so in many cases were actually having to make sure that our lines can have that in-line inspection.

So those are big areas of focus but I can talk more here in just a second about some of the details.

Do you have a question or...

Unidentified Speaker: *(Off Mic) (Inaudible)*

Vectren CEO Carl Chapman: Okay, all right. Okay so if we look at, again, the modernization and really trying to look at where we are going with that...I'll figure out which direction here in a second...it's really 215 million dollars of infrastructure upgrades that are planned through 2020 and we'll go through where those big areas are. We made a filing, as I mentioned, in November of 2013 with the Indiana Utility Regulatory Commission for recovery of these types of costs and those types of costs, again, almost...the vast majority under federal mandates. There are some other ones that are under Safety and Reliability and the approval will be required from the commission there as well but those are done under a different law. There are actually two different laws passed by the Indiana State Legislature, one for federal mandates and one for other kinds of improvements. The federal mandate, as I mentioned, about 80% of this particular filing, and then there's about 40 million beyond that.

That 175 million that I mentioned on federal mandates, 90 million will be for bare steel cast iron, 50 million for transmission, and 30 million for other distribution work and we'll take a look at each one of those starting with transmission.

So if we look at transmission, and by the way, a transmission pipe is a much larger pipe for the most part, but more importantly, it's under high pressure and often that pipe will run across counties so it's the ability to get from a big pipeline of an interstate pipeline. You may have seen Texas Gas, as an example, it's the ability to get from that pipeline into our system so we might have to take it across counties at much higher pressure and then bring it down to lower pressure as we get into the system. So that would be the transmission and I think did...

Unidentified Speaker: *(Off Mic) (Inaudible)*...the smaller ones.

Vectren CEO Carl Chapman: We'll get to the smaller ones, okay. So to give you a sense of that, it's about 150 miles here in the south. We've already mentioned the laws that have now come through. We already had a law from 2002 that required us to a lot of pipeline integrity work. We now have completed the requirements of that law and the second round has started over so there's that law already there and then the new law is here.

We actually would see that we would spend about 50 million dollars on transmission pipeline improvement. That's included in the 215 million that I mentioned to deal with the bigger or the high-pressure pipes, the transmission pipes, which generally speaking are going to be out in the not as urban areas but they bring the gas to the system. So that's where we would spend about fifty million of this 215.

If we then move on to the ones that are more like bare steel and cast iron, this is a replacement of about 300 miles in Vectren South. One hundred and thirty of that is in Evansville. We've already done 45 miles of that and 16 miles of that was in Evansville, about a seven million

dollar investment, which I mentioned before is already something we've done but we are not asking for recovery in this particular case.

It's actually been a positive in reducing leak calls. We obviously test our pipes by doing leak testing. Sometimes we'll have consumers say they think there's a leak but leak calls have been reduced by 12% for doing this.

That's about 90 million dollars of the 215 million that we're talking about and again, that's for bare steel and cast iron.

Unidentified Speaker: *(Off Mic) (Inaudible)*

Vectren CEO Carl Chapman: Okay, all right.

You can see though, in the yellow there, that's the plastic pipe that will often replace these. Again, I know you've seen water and sewer pipes probably a lot recently and the same sort of thing where you can get corrosion and you have the need to replace. This would be an example of something that needed to be replaced. It's generally replaced by plastic. Sometimes we would have steel pipe and those steel pipes, when they're installed now, have cathodic protection so that you don't have the same situation. Again, some of these pipes, obviously, would be from a very long time ago. And so that would give you a sense again of 90 million. So we've talked about 50 million on transmission and 90 million on the bare steel cast iron.

And then in areas that we would look at would just be some infrastructure modernization improvements. As an example, there would some bridge crossings that we want to replace due to age or just due to it being a safer approach in how we might do it. We do have some obsolete equipment here and there to replace. We'll continue to have public improvement work for sure. There will continue to be roads enhanced and lots of things that we'll have to move pipe around for. We'll have upgrades to some of our storage facilities. We have three storage facilities in the southwest here. We have more storage facilities up north and we really store gas. Obviously, buy it in the summer when it's cheaper for the customer and then sell it in the winter for them at that lower price rather than buying it all in the winter when it's a higher price. So we have some storage; there may be upgrades there.

There's also some non-commercially available pipe. In other word, pipe that's changed over time and so no long that size is available so sometimes that'll have to be replaced because it can't be repaired.

And then there is some of the older plastic. It's called vintage plastic. There's not too much in the southwest but sometimes that plastic pipe will have to be replaced so that will also be included.

So that would include then the other dollars that I mentioned of the 215 million dollars.

One real positive to this is obviously jobs and economic impact and basically, on the jobs, this work should support about 475 jobs in southwest Indiana. There's actually a lot more work that's being done in the north because that's a much bigger system that we have so there's even more jobs being supported. And by the way, this study was done by the Kelly School of Business. We had them look at this to see what the job impact should be. It's about 475 jobs. Also, it's about 25 million in additional spending that just is a spinout from that work so in other words, as that work is done, there's more multiplication affect from the economic affect and it also ought to drive about a million and a half in increased state and local government revenue.

So those are the positives beyond just safety and reliability, which is the real focus, meeting federal mandates but beyond that, there will be jobs and economic benefits.

But having said that, we are absolutely focused on the other piece of all this work and we have to have a safe system, we have to have a reliable system, but it's very important that we look at the bill impacts and so we want to take time now just to turn to those very quickly. If you think of the gas bill, and I know you probably all get a gas bill so I don't want to be elementary here but just to remind you, there are two parts to the gas bill. One is for the delivery. It's actually marked on your bill as a distribution and service charge. That's for us delivering the gas. And then there's the natural gas itself, which is about 60% of the bill and that natural gas, we buy in the open market and we sell at whatever we buy it for. We are not allowed to make a profit on that natural gas so 60% of the bill is a direct pass-through as we buy that gas. We obviously but it ahead of time and try to make sure that we, in essence, don't buy all of our gas at one time when maybe prices are higher so we hedge as we go for the customer even though it's no profit to us. We think that's the best answer to try to protect our customers from higher bills so we do hedge and we have hedged for a number of years.

So that's the split of the bill. Obviously, as natural gas goes up or down that 60/40 can switch just a little bit but generally speaking, that's the amount. However, I also want to remind you that natural gas has gone down dramatically and that means natural gas bills are substantially lower than they were.

You can see in 2008, the bill for a customer in southwest Indiana, on average, was \$985.00. In 2013, that was \$580.00. Now, in 2014 it was very cold in the early part of the year so bills will go up in 14 a bit but in terms of...based on the natural gas cost, you can see the kind of drop that there's been and that's actually about 40% drop since 2008 and so that's very good news for our customers. When you see that slight blip up in '13, frankly natural gas prices went just dramatically low. For much of the year there were like \$2.00 and so that's a very good thing for our customers, dropped the bill down even lower to that 540 level. They can't really stay there

at that level and gas be produced and so they started to move up just a little bit there in '13 but still, 40% less than they were in 2008.

I think often, and by the way, that also would mean as you look at this bill, what we are talking about in 2015 would be \$1.00 to \$1.50 per month increase, and not every month but a \$1.00 to a \$1.50 per month increase because of this. So that will give you a...sort of set it in tune with the magnitude of the bill, which is \$580.00 here.

I think what's often not discussed because there's so much focus on the electric side is actually that Vectren South's gas rates are some of the lowest in the state. There are only two natural gas companies in the State of Indiana who have lower bills to their customer than Vectren South and one of those, number 19, has a billion dollars as compared to our 215 million, has a billion dollars in front of the commission for the same kind of expenditures that we're going to have so even though they are lower, who knows where their rates may be going. But South has been, for a long time, has been very low compared to the other gas companies in the state, and as I mentioned and you can see from this particular chart, we actually are only two companies lower than Vectren South.

Having said that, we don't take lightly what happens to gas bills when we ask for approval of putting this pipe in the ground. That's why we look at this all along the way. I already mentioned we have to have a safe and reliable system. We have to follow the federal mandates but as we do that what we're monitoring is what it does to bills and very fortunately, I think the gas prices have gone down, which allows room, but frankly, we don't sit around and say, "They went down. Let's figure out how they can go back up". That's not what we do. We are very interested in what bills are to customers and so that's why we look at these comparisons all the time.

So in summary, just to kind of give you a sense then of what all this means, you can see since 2007 I mentioned that we have put 100 million dollars of investment in the ground. Obviously, you don't see it like you do on the electric side. There's not a power plant to look at, there aren't wires and poles to look at, but under the ground, we've put 100 million dollars. That's ongoing and in this case, it's really ongoing because of the federal government. The cost of compliance is simply increased and that's 215 million dollars by 2020. You might wonder why 2020. The reason that we did that is because the law requires a filing for seven years. We have to give an estimate to the commission of what we are going to spend for seven years and so from 13 to 20 is the reason that the filing is for that seven-year period.

It's really accelerated across the country. There are 30,000 miles per year being replaced across the country so it's not unique to here; it's not unique to Indiana. There are 38 other states that have programs like this where approval is allowed as you go, and one of the real advantages of the approval as we go, of course, is so that bill...the increase to the bill can actually happen as we go rather than in one lump sum and so that's one of the advantages of this approach and

38 states now have done that with the idea that it's really better for the consumer and obviously helpful for the company in order to finance it...what we have to do here because we've got to finance that 215 million obviously.

However, holding down customer rates is critical. We don't try to say safety and reliability unpriced. It all has to be managed. Let's face it, the number one issue *has* to be safety but price is right there with it and that's how we look at it. I think we will continue to see relatively low gas prices; there's no question that gas prices spike during part of the winter but if you look at a long term gas price, let's say a ten-year gas price, actually ten-year gas prices are lower right now than they were before the winter started. You might have seen some press recently that we have been out locking in five and ten-year gas contracts for our customers because we think this is a good time to do that but more importantly, it allows us to hedge prices at various times and so we've actually recently done both five and ten-year contracts for the Vectren South customers. We did the same thing from the Vectren North because we think those longer-term prices look very good.

We also think that gas costs will stay reasonable. They can't go to \$2.00 and stay there. No producer is going to produce their gas at \$2.00 but at the level we're at now, and maybe even a bit less, we think producers will produce and so we think gas prices stay reasonable which allows the bills to stay reasonable as well. They will fluctuate at times, no question. They were volatile some in the winter but because we hedge ahead, then we don't have as big of impact for our customers than if we had not hedged.

So let me stop there and as I said, I really appreciate the time to share with you. I think we talked to you a lot about electric, not so much about gas but gas is where the action is right now in terms of the dollars being required to spend to make sure that our systems are where we need them to be.

President Friend: Carl, can I...

Vectren CEO Carl Chapman: Yeah.

President Friend: Let me ask you one question. From the sources that you folks buy your gas from, that resources, do you guys have any equity interest in any of those suppliers coming up the line?

Vectren CEO Carl Chapman: We do not. We used...

President Friend: I have to ask.

Vectren CEO Carl Chapman: We used to own a company called Proliance Energy, which we sold. Proliance Energy though, even there, we had through the cost exactly as we bought it

and Proliance had to buy it at market but we sold Proliance so we have no interest in any business that sells natural gas.

President Friend: Help me through the recapture of your costs, as I understand this. Over seven years you plan to, through the billing rates, to recapture the full 215 million dollars?

Vectren CEO Carl Chapman: No. Actually...

President Friend: That's what I'm wondering.

Vectren CEO Carl Chapman: Actually what we plan to do is those pipes have a certain life...

President Friend: Right, exactly.

Vectren CEO Carl Chapman:...and what we plan to get is the depreciation of those lines...

President Friend: Right.

Vectren CEO Carl Chapman:...so whatever the life of the pipe is, let's make one easy, let's say a service pipe lasts 40 years, we look to recover the cost over 40 years and we look to get a return on that, a return that's...

President Friend: Exactly.

Vectren CEO Carl Chapman:...established by the commission so it's both a return on the pipe cost and a return of the pipe cost over time because we have to either get that from our equity holders, we go out and sell equity, or we get it from debt holders.

President Friend: Yeah.

Vectren CEO Carl Chapman: Either way, we have to basically borrow those funds.

President Friend: Exactly, so what...as I see, it goes in your rate base as I call it. Am I using the right term?

Vectren CEO Carl Chapman: The plant goes in the rate base.

President Friend: The rate base and then from that you get a certain rate of return off that and that's how you're gonna get your...and then if you go out and leverage it, those fixed charges then are usually subtracted back out to come down to the...to the net income to apply to the guaranteed or the control rate that you have.

Vectren CEO Carl Chapman: Right. We get that interest expense, net of tax because it's tax deductible...

President Friend: It's after the tax, yes.

Vectren CEO Carl Chapman: We get that interest expense back, dollar for dollar and then a return on whatever equity we've invested.

President Friend: I'm going back to my old years of looking at the rate study.

Vectren CEO Carl Chapman: Sure.

President Friend: Okay, thank you. Appreciate that.

Councilman O'Daniel: What are the federal mandates? When do they have to be implemented by?

Vectren CEO Carl Chapman: Actually most of them have not had a precise time table so that's where I mentioned earlier that until we see the final rules, what we've done is our best estimate of when we think we should do certain things based on the input we've gotten from the federal regulator. They've not said, as an example, a specific time frame on cast iron but I think what we'll see over time is whatever it is, they're going to keep cutting back the time.

I don't know if you're familiar with something that happened at Consolidated Edison about two weeks ago but there was a cast iron pipe. In that case, it was put in in 1880. A cast iron pipe that has been claimed to have caused them this problem. So I think what's going to happen is cast iron will just constantly be moved back. What we've done in our filing is our best estimate of the timeframe that we think makes sense as we evaluate what needs to be done and the impact to customer rates.

I think...I'm not an expert on what you all have done, but I think as you look at how you do your water programs and sewer over time, what you're trying to look at is how does that impact the bill and what should be the right timeframe. In essence, we're trying to do the same thing, safety and also customer impact.

Councilman Adams: Mr. Chapman, very impressive gas rates. How does Vectren's gas rate benchmark with a larger area in the Midwest or even nationally?

Vectren CEO Carl Chapman: We would benchmark very well. I don't have the specific number because again, it's volatile with gas prices.

Councilman Adams: Sure.

Vectren CEO Carl Chapman: But we would benchmark very well. Indiana is one of the lowest states in the country in terms of natural gas prices to customers and we benchmark well in Indiana. The reason for that is really we are blessed to have a lot of pipelines, big national pipelines, that run through here which give us options as to how we buy our gas and so that's really one of the...

Councilman Adams: So if something is coming from Texas to New York, it's gotta go through here?

Vectren CEO Carl Chapman: Yeah. Well it may not go here but it will go through the Midwest for the most part and we have a lot of pipes that have been built by the big pipe companies over the year.

One of the other things, and again you might find this of interest, I don't know, I think you might, is that what we have going on is the reason prices are low is all this shale gas that's being found and what we are looking at is where is the best place to get our gas. So as an example, in the northeast right now it's called the Marcellus shale, that's the best priced gas. We're looking at long term, how do we get that here? Historically we bought all of our gas either from the Gulf, coming up from the Texas area, or from out west in the plains. But now we are seeing that there may be opportunities for us over time to try to bring some of this other gas in from other locations that's actually cheaper right now.

Councilman Adams: Interesting that you mentioned that. I spent some time in Maine this summer and they were trying to develop exactly what you just said but the problem they were having is getting it out of the state.

Vectren CEO Carl Chapman: Right.

Councilman Adams: They didn't have the pipeline to get it to the rest of the country.

Vectren CEO Carl Chapman: That is the big problem.

Councilman Adams: What's the hang-up with why does the plastic pipe only last 40 years?

Vectren CEO Carl Chapman: Well I...

Councilman Adams: How does it corrode? I mean...

Vectren CEO Carl Chapman: Actually, there is not a speci...that is just a reasonable life for plastic pipes. Some may have longer and some may have shorter. It really is just a matter of we are not certain. As an example, the plastic pipe that I mentioned we might be replacing

some of, when it was installed of course it was viewed that it would last a very long time. It's actually lasted about the timeframe that everyone thought on the front end. So it's not that it corrodes but it's just over time it can be damaged by dig-ins so we have a lot of work that we do to try to...

Councilman Adams: Frost even.

Vectren CEO Carl Chapman: I'm sorry?

Councilman Adams: Or even frost?

Vectren CEO Carl Chapman: Probably not for plastic pipe but frost certainly is terrible for cast iron...

Councilman Adams: Right.

Vectren CEO Carl Chapman: Because you have the freezing and thawing. But, you know, 40 years, as I would just say, is kind of the standard life that is provided by engineers for the plastic pipe. You know, some will last longer, some will last less but 40 is a rough number.

Councilman Adams: And the pig tells you when to replace it.

Vectren CEO Carl Chapman: The pig actually tells you that in steel more than plastic. So in the steel, what it does is the pig says, "You've got a section of your pipe here that's getting thin", as an example because there it's probably corroded or frankly, someone may have damaged it and not told us and so the pig will say, "You've got a thin spot or damage". We'll know to replace that.

Councilman Adams: Sort of like a truffle.

Vectren CEO Carl Chapman: I'm sorry?

Councilman Adams: Sort of like a truffle.

Vectren CEO Carl Chapman: Yeah. So you know it basically can tell us in all which ways you know, what do you need to do with this pipe, but if you can't send it down the pipe then obviously you will evaluate it other ways. It's not like you give up.

Councilman Adams: I'm kind of amazed that they couldn't have...figure out...make a pig go around and L too because there are lots you can have tubes manipulate around arteries and I'm amazed that they couldn't develop a pig that could go around an L.

Vectren CEO Carl Chapman: Well it's the same concept for sure. I will tell you, it would be something that the industry has been after for a long time. Might it ever occur? Sure, I think it might and so what we've tried to do is just be reasonable in what timeframe should we do each of these.

Councilman Adams: Thank you.

Vectren CEO Carl Chapman: Thank you.

Councilwoman Brinkerhoff-Riley: I have a...

Vectren CEO Carl Chapman: Yes.

Councilwoman Brinkerhoff-Riley: Thank you. First of all I just really wanted to thank you for coming and as part of this I think it's wonderful that you're here to talk about this side before the public hearing occurs on April 14 where, you know, rate payers will have an opportunity. I think they'll be much more educated, you know when they attend that hearing. Hopefully they're tuning in tonight.

I have a few questions. I'll try and be very quick. You talk about, I mean, the rate increases will start in 15 and they're projected to go through 22 and that's approximate. I mean, when you talk about the \$1.00 to \$1.50 a month, that occur each year and for a net increase and approximately in 2022 most people will have a \$14.00 or \$15.00 a month increase, or about \$180.00 a year...

Vectren CEO Carl Chapman: Yeah, would...

Councilwoman Brinkerhoff-Riley:...over the course of the seven years.

Vectren CEO Carl Chapman: We would call it \$13.00 to \$14.00 but you know, in that range, that's correct. That would be the range over that timeframe.

Councilwoman Brinkerhoff-Riley: And what is your relationship with Miller Pipeline?

Vectren CEO Carl Chapman: Yeah...

Councilwoman Brinkerhoff-Riley: Is that a subsidiary of yours?

Vectren CEO Carl Chapman: Miller Pipeline has been owned by Vectren since 2000 and basically Miller does do some work for us. Their largest customer is actually Columbia. That was their first customer 60 years ago; that's their largest customer today. But all of Miller's work has to be bid so we're not allowed to just select Miller Pipeline so all their work is bid.

Miller does work across the country, basically in most states east of the Mississippi and they're actually the largest gas contractor for utilities in...basically in the Midwest.

Councilwoman Brinkerhoff-Riley: Well they've been in my neighborhood for the last two weeks and it really...considering what they had to do, it was not an unpleasant experience and they were very professional.

Vectren CEO Carl Chapman: Well I appreciate hearing that.

Councilwoman Brinkerhoff-Riley: I know they just...they just went through this process as they replaced everything in our neighborhood.

Vectren CEO Carl Chapman: One thing I should have mentioned, we're trying to do lots of communication with customers; I hope you received some.

Councilwoman Brinkerhoff-Riley: Actually the most helpful thing that I think you've done, and it was for me, was putting on my door that card that told me what color...what the flags mean.

Vectren CEO Carl Chapman: Okay.

Councilwoman Brinkerhoff-Riley: So I knew when they were getting ready to actually cut into my ground, I could tell by the color of flag so, you know, I watched them mark off my sewer and the different lines with the different colored flags. I really found that to be incredibly helpful in general. It's in my purse.

Vectren CEO Carl Chapman: Okay.

Councilwoman Brinkerhoff-Riley: And then when I drive around town I'll be like, "Hey, there's...you know, they're doing..." You know I can see what that means now. I thought that was really helpful.

Vectren CEO Carl Chapman: Appreciate that. And again, as I mentioned, Miller does work for us. They don't do all the work because...

Councilwoman Brinkerhoff-Riley: Right.

Vectren CEO Carl Chapman:...they have to bid it. They win some and they lose some. They certainly do a large amount of our work.

Councilwoman Brinkerhoff-Riley: But when you talk about the 475 jobs, it's primarily that work, I mean that...that actually what I watched them do: dig up part of my yard and replace that...

Vectren CEO Carl Chapman: That's a big chunk of it but there also are lots of engineering jobs...

Councilwoman Brinkerhoff-Riley: Right.

Vectren CEO Carl Chapman:...because all that work has to be designed...

Councilwoman Brinkerhoff-Riley: Okay.

Vectren CEO Carl Chapman:...and done properly so there are a lot of engineering jobs and support kind of jobs also in that 475.

Councilwoman Brinkerhoff-Riley: And you contract that type of work out as well?

Vectren CEO Carl Chapman: Some of that is contracted and some is not. It really depends on our workload and what's the best cost for the customer.

Councilwoman Brinkerhoff-Riley: But it sounds like when you're talking about the 475 jobs, these are relatively high paying...these are decent jobs.

Vectren CEO Carl Chapman: These are very good jobs.

Councilwoman Brinkerhoff-Riley: Okay. The 130 miles in Evansville, it sounds like you've got about 114 miles to go. It looks you guys replaced 16 in Evansville but you've got a total of 130.

Vectren CEO Carl Chapman: Right. We were doing it at a much slower pace and when the federal mandates came out and basically came out and basically, our own evaluation of the right timeframe, we felt like we should speed that process up.

Councilwoman Brinkerhoff-Riley: I just wanted to clarify...I *(Inaudible)* want to make sure I understand and the last thing I had was is pig, P I...is that an acronym?

Vectren CEO Carl Chapman: It is basically...I guess I'd say noun, P I G. Is it an acronym? I don't....

Unidentified Speaker: *(Off Mic)* No. The reason it's called a pig is because when you pick up *(Inaudible)* it squeals.

Laughter

Councilwoman Brinkerhoff-Riley: Okay.

Vectren CEO Carl Chapman: This is why I brought Jim with us. Actually, I'm kidding. Jim is our top engineer and very involved in all of this and very instrumental in all the design as well as getting this done.

Councilwoman Brinkerhoff-Riley: The reason I ask is because it sounds to me...I liken that to the reg...to the laws that are forcing us to basically televise more and more of our sewer lines every year and so it sounds like that I understand you've completed a seven-year cycle and that means that everywhere you could get with this pig, you know, barring some bend, you've actually looked at the lines and been able to evaluate where you need to...I mean this is a way to know where your next maintenance job needs to be.

Vectren CEO Carl Chapman: It is one way. There are other ways to evaluate corrosion, which we've done. It's not like we've said, "Well, we can't pig that. We won't do the evaluation". There are other ways to do that and we've done that in the areas that we were required or we feel like we need to.

Councilwoman Brinkerhoff-Riley: I just think it's great for people to know that that you've already completed a seven-year cycle. I know for others but I mean just...and I think that was intentionally done, that gas explosion at that residence in Indianapolis, but when a house explodes with a ga...I mean there's just so much potential damage and so I was surprised to know that you've already completed that and I guess you're starting over. So that's impressive. I mean I feel safer and I think that's sort of the point of the presentation and the idea of why we're spending the money. Or why you're spending the money.

Vectren CEO Carl Chapman: It's a fantastic product. It has unique characteristics and the important thing is to focus on safety...

Councilwoman Brinkerhoff-Riley: Right.

Vectren CEO Carl Chapman:...and that's what we do.

Councilwoman Brinkerhoff-Riley: I appreciate your time.

Vectren CEO Carl Chapman: Thank you very much.

President Friend: Carl...Mr. Chapman, thanks for coming out tonight.

Vectren CEO Carl Chapman: Thank you.

President Friend: Appreciate you...

Vectren CEO Carl Chapman: And obviously, if there are other questions, you know where we are. We're happy to respond. Thanks a lot.

President Friend: Thank you for your time.

Okay, we need Committee Reports. A.S.D.

COMMITTEE REPORTS:

A.S.D. COMMITTEE:

Nothing scheduled at this time.

CHAIRMAN ADAMS

FINANCE COMMITTEE:

Re: **Ordinance F-2014-4**

Date: April 14, 2014

Time: 5:25 p.m.

Notify: Russell Lloyd, Jr.

CHAIRMAN O'DANIEL

Authorizing Transfers of Appropriations,
Additional Appropriations and Repeal and
Re-Appropriation of Funds for Various City
Funds

PUBLIC WORKS COMMITTEE:

Nothing scheduled at this time.

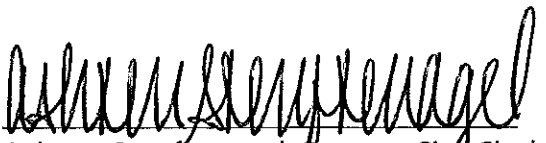

CHAIRMAN LINDSEY

ADJOURNMENT

President Friend: With that, I have a motion for adjournment.

Councilman O'Daniel moved and Councilman Lindsey seconded the motion to adjourn. Voice Vote. So Ordered.

Meeting adjourned at 6:30 p.m.


Ashten Stenftenagel, Deputy City Clerk
John Friend, President